

**Floyd Valley Hospital  
and Floyd Valley Hospital Foundation  
Le Mars, Iowa**

**FINANCIAL REPORT**

**June 30, 2014**

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**Floyd Valley Hospital  
OFFICIALS  
June 30, 2014**

**Board of Trustees**

Craig Bauerly, Chairman  
William Young, Vice Chairman  
Ralph Klemme, Treasurer  
Larry Petersen, Secretary  
Bill Rosacker

**Expiration of term**

December, 2017  
December, 2017  
December, 2015  
December, 2015  
December, 2015

**Administrator**

Michael T. Donlin, FACHE

**Director of Financial Services**

Daryl J. Friedenbach



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Floyd Valley Hospital  
LeMars, Iowa

We have audited the accompanying financial statements of Floyd Valley Hospital, a component unit of the City of LeMars, Iowa, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents. We have also audited the accompanying financial statements of Floyd Valley Hospital Foundation, a component unit of Floyd Valley Hospital, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd Valley Hospital and Floyd Valley Hospital Foundation, as of June 30, 2014 and 2013, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule and the schedule of funding progress for the retiree health plan on pages 6-11, 39 and 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
October 14, 2014

## **Floyd Valley Hospital Management's Discussion and Analysis**

As management of Floyd Valley Hospital, we offer readers of the Hospital's financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2014, 2013 and 2012. Please read it in conjunction with the Hospital's financial statements, which follow this section.

### **Overview of the Financial Statements:**

This annual report includes management's discussion and analysis report, the independent auditors report and the basic financial statements of the Hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **Required Financial Statements:**

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Floyd Valley Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and the financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Highlights:**

- Total assets increased by \$6.1 million from FY 2013 to \$34.5 million, primarily related to increase in cash and capital assets.
- The Hospital began a significant hospital building addition and remodeling project during FY 2014 including a 30,000 square foot addition that will house a new physician clinic, business office as well as new surgical suites. The Hospital also completed a new loading dock/receiving area.
- The Hospital committed to additional long term debt to finance the capital building project which included USDA direct loan financing which secured construction financing. The USDA direct loan commitment is for \$15.75 million. The Hospital also committed to additional long term debt through a regional lender to finance the project as well as refund existing long term debt. This loan commitment includes a 20-year amortization in the amount of \$5.25 million.
- The Hospital Foundation undertook a capital campaign of community donations to assist in the costs of the capital building project in the amount of \$2.6 million. The Hospital also received pledges of \$3.4 million from the City of Le Mars and Plymouth County toward the project. Utilizing these pledges, the Hospital was able to obtain a loan commitment from a local lender not to exceed \$4.6 million to be repaid from the capital campaign pledges.
- Total net capital assets increased by \$4.1 million from FY 2013 primarily related to the building construction project underway.

- Net position increased by \$1.6 million from FY 2013.
- FY 2014 net patient service revenue increased by \$495 thousand, primarily due to increase demand for outpatient services.
- FY 2014 expenses increased by \$259 thousand. The increases related to increased staffing and benefits costs, as well as operating costs associated with computer systems.
- Total margin for FY 2014 was 4.8%, compared to 1.1% for FY 2013 and .8% for FY 2012.

### **Financial Analysis of the Hospital:**

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in it. The Hospital's net position – the difference between assets and liabilities – are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

### **Net Position:**

A summary of the Hospital's balance sheets at June 30, 2014, 2013, and 2012 are presented in Table 1 below:

**Table 1**  
**Condensed Balance Sheet**  
**(in thousands)**

	June 30, 2014	June 30, 2013	June 30, 2012
Current and other assets	\$18,816	\$16,904	\$17,302
Capital assets	\$15,691	\$11,547	\$11,007
Total Assets	\$34,507	\$28,451	\$28,309
Long term debt outstanding	\$ 7,020	\$ 3,773	\$ 4,125
Other liabilities	\$ 5,999	\$ 4,813	\$ 4,680
Total Liabilities	\$13,019	\$ 8,586	\$ 8,805
Invested in Capital Assets	\$ 8,671	\$ 7,774	\$ 6,883
Restricted	\$ 100	\$ 975	\$ 961
Unrestricted	\$12,717	\$11,116	\$11,660
Total Net Position	\$21,488	\$19,865	\$19,504

As can be seen in Table 1, net position increased by \$1.6 million to \$21.5 million in fiscal year 2014, up from \$19.9 million in fiscal year 2013 and \$19.5 million in fiscal year 2012. The change in net position results primarily from restricted contributions related to the capital campaign and construction project for the Hospital.

### Revenues, Expenses, and Changes in Net Position:

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2014, 2013 and 2012.

**Table 2**  
**Condensed Statements of Revenue, Expenses, and Changes in Net Position**  
**(In Thousands)**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total Revenue	\$34,001	\$33,257	\$31,302
Expenses	\$33,280	\$33,020	\$31,188
Operating Income	\$ 721	\$ 237	\$ 114
Non-Operating Gains (Losses)	\$ (91)	\$ 53	\$ (33)
Excess of Revenues over expenses before contributions	\$ 630	\$ 290	\$ 81
Contributions	\$ 993	\$ 71	\$ 174
Changes in Net position	\$ 1,623	\$ 361	\$ 255
Total Net position, Beginning	\$19,865	\$19,504	\$19,249
Total Net position, Ending	\$21,488	\$19,865	\$19,504

### Operating and Financial Performance:

The following summarizes the Hospital's statements of revenue, expenses, and changes in net position between June 30, 2014, 2013 and 2012.

**Volume:** Inpatient discharges for fiscal year 2014 were 4% less than in 2013. Outpatient utilization was 2% greater than the prior fiscal year within the Hospital. Skilled care discharges were 1% less than the prior year, while Home Health visits were up by 6%. The number of clinic visits at the Family Medical Clinic increased by 5% from the prior fiscal year.

**Net Patient Service Revenue:** Due to rate increases, and the changes in services described above, net patient revenues increased by \$495 thousand or 2% in comparison to fiscal year 2013.

**Payor Mix:** The payor mix of the patients served has an impact on the net revenues of the Hospital because of different contractual payment rates for various payor types. Generally as a Critical Access Hospital the reimbursement is made based on the cost of providing the services. Other commercial payor's rates are determined by contracts based on fee schedules or percentage of charges billed.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2014, 2013 and 2012.

**Table 3**  
**Payor Mix by Percentage**

	<b>Year Ended June 30</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Medicare	41.7%	41.1%	42.6%
Wellmark Blue Cross	30.9%	29.6%	27.3%
Commercial	17.3%	19.3%	21.7%
Medicaid	7.8%	7.7%	6.2%
All others	2.3%	2.3%	2.2%



**Other Revenue:** Floyd Valley Hospital receives various revenues from non-patient related services, the largest of which is the revenues associated with the assisted living facility - Park Place Estates. Revenues associated with the assisted living facility were 2% greater than a year ago due to higher charges for services and greater occupancy rates. The current fiscal year was the second year of receiving federal reimbursement related to the installation of Electronic Medical Records computer system. Floyd Valley Hospital received \$331,852 of Meaningful Use revenues related to these certified EMR systems, down \$175,247 from the prior year.

**Expenses:** Nursing Services expenses decreased by 3.5% primarily due to lower professional fee and supply costs.

Other professional services increased by 1.9% primarily due to purchased services and professional fee cost increases.

General service expenses increased just .9% as the Hospital was able to control staffing costs and supply expenses within these areas.

All other fiscal and administrative service costs increased by 4.1% primarily related to employee benefit costs including payroll taxes and health benefit costs. The Hospital is also experiencing higher maintenance costs related to information technology services.

#### **Capital Assets:**

At the end of fiscal year 2014, the Hospital has invested approximately \$15.7 million in capital assets as shown in Table 4.

**Table 4**  
**Capital Assets**  
**(in thousands)**

	<b>June 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Land & Land Improvements	\$ 1,058	\$ 1,058	\$ 1,058
Buildings	\$ 18,422	\$ 18,239	\$ 18,234
Major Moveable Equipment	\$ 8,195	\$ 7,844	\$ 7,203
Medical records	\$ 253	\$ 253	\$ 253
Construction/Equipment Installs in Progress	\$ 5,945	\$ 1,229	\$ 363
Subtotal	\$ 33,873	\$ 28,623	\$ 27,111
Less accumulated depreciation	\$ (18,182)	\$ (17,076)	\$ (16,104)
Capital assets, net	\$ 15,691	\$ 11,547	\$ 11,007

#### **Debt Administration:**

At the end of fiscal year 2014, the Hospital had \$7.0 million in debt related to Hospital Revenue Bonds and additional debt of \$36 thousand that was issued in November of 2008 from the North West Rural Electric Cooperative Rural Economic Development Loan Fund. More detailed information regarding the Hospital's debt is presented in the Notes to the Financial Statements.

### Performance Compared to Budget:

Net patient revenues were \$30.7 million which was 3% less than budget for fiscal year ended June 30, 2014.

Operating Expenses were \$33.3 million which was 3% less than budget expectations for the fiscal year ending June 30, 2014.

The restricted contribution revenues significantly exceeded budget as the Hospital had not anticipated the successful capital campaign donations related to the building project at the time the budget was completed. The restricted contributions totaled approximately \$993 thousand.

The following table compares fiscal year 2014 actual to budget information.

**Table 5**  
**Budget vs. Actual**  
**(in thousands)**

	<b>FY 2014 Actual</b>	<b>FY 2014 Budget</b>	<b>Dollar Variance</b>	<b>Percent Variance</b>
Gross patient service revenue	\$49,106	\$50,010	\$ (904)	(2)%
Contractual Adjustments & Bad Debt	\$18,375	\$18,203	\$ 172	1%
Net patient service revenue	\$30,731	\$31,807	\$(1,076)	(3)%
Other operating revenue	\$ 3,270	\$ 2,864	\$ 406	14%
Total operating revenue	\$34,001	\$34,671	\$ (670)	(2)%
Operating Expenses	\$33,280	\$34,439	\$(1,159)	(3)%
Operating Gain/Loss	\$ 721	\$ 232	\$ 489	211%
Non-Operating Gains (Losses)	\$ (91)	\$ (147)	\$ 56	38%
Excess of Revenues over Expenses	\$ 630	\$ 85	\$ 545	641%

### Economic and Other Factors and Next Years Budget:

The Hospital's board and management considered many factors when setting the fiscal year 2015 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors especially Wellmark Blue Cross, which is a significant payor
- Cost of supplies including escalating drug costs
- Workforce shortages especially among nursing and impact on salary costs
- Regulatory changes including healthcare reform
- Facility expansion and growth in demand for services and the need to make significant capital improvements to aging plant and equipment
- Physician recruitment, especially family practice physicians
- Cost associated with maintaining information technology systems in the hospital especially electronic medical record systems required by the Federal government.

**Contacting Floyd Valley Hospital's Management**

This financial report is designed to provide our customers, government officials and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional information, contact the Floyd Valley Hospital at (712) 546-7871 or write care of: Director of Financial Services, Floyd Valley Hospital, 714 Lincoln Street NE, Le Mars, Iowa 51031.

**Floyd Valley Hospital  
BALANCE SHEETS**

	June 30	
ASSETS	2014	2013
CURRENT ASSETS		
Cash	\$ 6,175,617	\$ 3,939,740
Assets whose use is limited, required for current liabilities	7,043	329,314
Patient receivables, less allowance for contractual adjustments and uncollectible accounts		
2014 \$3,661,832; 2013 \$4,101,384	3,910,539	3,918,056
Other current receivables	33,224	104,436
Current portion of note receivable	71,250	35,000
Inventories	443,302	384,716
Prepaid expenses	246,946	216,789
Total current assets	<u>10,887,921</u>	<u>8,928,051</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	2,125,425	2,761,994
Certificates of deposit	4,460,412	3,790,282
Accrued interest receivable	3,160	2,351
	<u>6,588,997</u>	<u>6,554,627</u>
Restricted for payment of revenue notes and interest		
Cash	1,249	210,220
Certificates of deposit	—	668,124
	<u>1,249</u>	<u>878,344</u>
Restricted by donors for specific purpose		
Cash	98,804	96,875
Total assets whose use is limited	6,689,050	7,529,846
Less assets whose use is limited and that are required for current liabilities	7,043	329,314
Noncurrent assets whose use is limited	<u>6,682,007</u>	<u>7,200,532</u>
CAPITAL ASSETS	33,873,484	28,623,313
Less accumulated depreciation	<u>18,182,934</u>	<u>17,076,146</u>
Total capital assets	<u>15,690,550</u>	<u>11,547,167</u>
OTHER ASSETS		
Unamortized financing costs	—	15,708
Note receivable, net of current portion	87,084	49,583
Beneficial interest in remainder trust	999,000	551,000
Investment in Northwest Iowa Diagnostics	57,862	51,282
Investment in Floyd Valley Home Medical Equipment	102,570	108,260
Total other assets	<u>1,246,516</u>	<u>775,833</u>
Totals	<u>\$34,506,994</u>	<u>\$28,451,583</u>

		June 30	
LIABILITIES AND NET POSITION		2014	2013
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 36,000	\$ 367,000
Accounts payable			
Trade		3,285,907	2,694,888
Construction and equipment		781,096	315,946
Accrued employee compensation		1,497,516	1,302,830
Security deposits		25,100	20,500
Payroll taxes and amounts withheld from employees		200,589	256,818
Accrued interest		7,043	34,314
Estimated third-party payor settlements		201,751	187,643
Total current liabilities		<u>6,035,002</u>	<u>5,179,939</u>
<b>LONG-TERM DEBT</b> , less current maturities		<u>6,983,618</u>	<u>3,406,200</u>
Total liabilities		<u>13,018,620</u>	<u>8,586,139</u>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET POSITION</b>			
Invested in capital assets, net of related debt		8,670,932	7,773,967
Restricted		100,053	975,219
Unrestricted		<u>12,717,389</u>	<u>11,116,258</u>
Total net position		<u>21,488,374</u>	<u>19,865,444</u>
Totals		<u>\$34,506,994</u>	<u>\$28,451,583</u>

**Floyd Valley Hospital**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provisions for bad debts 2014 \$1,061,187 ; 2013 \$864,211	\$30,731,372	\$30,236,349
<b>OTHER REVENUE</b>	<u>3,269,876</u>	<u>3,020,958</u>
Total revenue	<u>34,001,248</u>	<u>33,257,307</u>
<b>EXPENSES</b>		
Nursing service	8,240,454	8,535,707
Other professional service	13,169,216	12,929,558
General service	1,746,416	1,730,779
Fiscal and administrative service and unassigned expenses	8,626,113	8,288,620
Provision for depreciation and amortization	<u>1,498,046</u>	<u>1,536,094</u>
Total expenses	<u>33,280,245</u>	<u>33,020,758</u>
Operating income	<u>721,003</u>	<u>236,549</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Interest income	44,764	65,274
Interest and amortization expense	(636,104)	(218,790)
Unrestricted contribution	—	275
Change in value of split-interest agreement	448,000	143,000
Equity in earnings of equity method investments	53,310	59,752
Gain on disposal of equipment	<u>(1,569)</u>	<u>3,801</u>
Total nonoperating gains (losses)	<u>(91,599)</u>	<u>53,312</u>
Excess of revenues over expenses before contributions	629,404	289,861
<b>RESTRICTED CONTRIBUTIONS</b>	<u>993,526</u>	<u>71,307</u>
Change in net position	1,622,930	361,168
<b>TOTAL NET POSITION</b>		
Beginning	<u>19,865,444</u>	<u>19,504,276</u>
Ending	<u>\$21,488,374</u>	<u>\$19,865,444</u>

See Notes to Financial Statements.

**Floyd Valley Hospital  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$30,752,997	\$30,086,078
Cash paid to employees for service	(15,876,623)	(15,561,996)
Cash paid to suppliers for goods and services	(15,338,594)	(15,447,025)
Other operating revenue received	<u>3,345,688</u>	<u>2,986,544</u>
Net cash provided by operating activities	<u>2,883,468</u>	<u>2,063,601</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Unrestricted contributions received	—	275
Contributions restricted for capital assets, net	<u>993,526</u>	<u>71,307</u>
Net cash provided by noncapital financing activities	<u>993,526</u>	<u>71,582</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(5,183,295)	(1,969,041)
Proceeds from sale of capital assets	5,449	11,841
Proceeds from issuance of long-term debt	6,983,618	—
Principal paid on long-term debt	(3,812,000)	(357,000)
Interest paid on long-term debt	(121,894)	(212,927)
Payment of financing costs	<u>(450,973)</u>	<u>—</u>
Net cash (used in) capital and related financing activities	<u>(2,579,095)</u>	<u>(2,527,127)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(4,138,832)	(4,236,862)
Proceeds from maturities of certificates of deposit	4,136,826	4,233,411
Distribution from Floyd Valley Home Medical Equipment	30,500	23,500
Distribution from Northwest Iowa Diagnostics	21,918	—
Interest received	<u>43,955</u>	<u>67,002</u>
Net cash provided by investing activities	<u>94,367</u>	<u>87,051</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,392,266	(304,893)
<b>CASH</b>		
Beginning	<u>7,008,829</u>	<u>7,313,722</u>
Ending	<u>\$ 8,401,095</u>	<u>\$ 7,008,829</u>

See Notes to Financial Statements.

**Floyd Valley Hospital**  
**STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 721,003	\$ 236,549
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,498,046	1,536,094
Forgive note receivable	71,249	282,501
Change in assets and liabilities		
Decrease in patient receivables	7,517	23,595
(Increase) decrease in other current receivables	71,212	(35,414)
(Increase) decrease in inventories	(58,586)	35,363
(Increase) decrease in prepaid expenses	(30,157)	5,298
(Increase) in note receivable	(145,000)	(40,000)
Increase (decrease) in estimated third-party payor settlements	14,108	(173,866)
Increase in accounts payable, net of amounts for capital assets	591,019	72,403
Increase in accrued employee compensation	194,686	41,745
Increase in security deposits	4,600	1,000
Increase (decrease) in payroll taxes and withholdings	<u>(56,229)</u>	<u>78,333</u>
Net cash provided by operating activities	<u>\$2,883,468</u>	<u>\$2,063,601</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets	\$6,175,617	\$3,939,740
Assets whose use is limited		
Designated by board for plant expansion	2,125,425	2,761,994
Restricted for payment of revenue notes and interest	1,249	210,220
Restricted by donors for specific purpose	<u>98,804</u>	<u>96,875</u>
Total per statements of cash flows	<u>\$8,401,095</u>	<u>\$7,008,829</u>
<b>SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Increase in beneficial interest in remainder trust	<u>\$ 448,000</u>	<u>\$ 143,000</u>

See Notes to Financial Statements.



**Floyd Valley Hospital Foundation**  
**(A Component Unit of Floyd Valley Hospital)**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Interest in the net assets of Avera Health Investment Pool	\$ 348,586	\$ 441,026
Contributions receivable	<u>1,353,018</u>	<u>1,674</u>
<b>TOTAL ASSETS</b>	<b><u>\$1,701,604</u></b>	<b><u>\$ 442,700</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ <u>334</u>	\$ <u>43,114</u>
<b>NET ASSETS</b>		
Unrestricted		
Designated by Board for endowment	69,688	61,693
Undesignated	164,651	147,275
Temporarily restricted	1,453,454	177,141
Permanently restricted	<u>13,477</u>	<u>13,477</u>
Total net assets	<u>1,701,270</u>	<u>399,586</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$1,701,604</u></b>	<b><u>\$ 442,700</u></b>

See Notes to Financial Statements.

**Floyd Valley Hospital Foundation**  
**(A Component Unit of Floyd Valley Hospital)**  
**STATEMENTS OF ACTIVITIES**

	<b>Year ended June 30, 2014</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
<b>REVENUES AND OTHER SUPPORT</b>				
Contributions	\$ 1,839	\$ 1,841	\$ —	\$ 3,680
Special event	—	2,131,868	—	2,131,868
Investment gain	27,685	10,724	—	38,409
	<u>29,524</u>	<u>2,144,433</u>	<u>—</u>	<u>2,173,957</u>
Net assets released from restrictions				
Satisfaction of purpose	868,120	(868,120)	—	—
Total revenue and support	<u>897,644</u>	<u>1,276,313</u>	<u>—</u>	<u>2,173,957</u>
<b>EXPENSES</b>				
Program services				
Floyd Valley Hospital Employee Assistance	3,562	—	—	3,562
Capital Campaign	474,400	—	—	474,400
Pediatrics, cost of direct benefit to donors	21,184	—	—	21,184
Health education	—	—	—	—
Caring for life, cost of direct benefit to donors	350,605	—	—	350,605
Medical records	—	—	—	—
Cancer services	19,259	—	—	19,259
Breast Cancer Detection Assistance	268	—	—	268
Musson Scholarships	—	—	—	—
Total program services	<u>869,278</u>	<u>—</u>	<u>—</u>	<u>869,278</u>
Supporting service				
Administrative services	2,995	—	—	2,995
Total expenses	<u>872,273</u>	<u>—</u>	<u>—</u>	<u>872,273</u>
<b>CHANGE IN NET ASSETS</b>	25,371	1,276,313	—	1,301,684
<b>NET ASSETS</b> , beginning of year	<u>208,968</u>	<u>177,141</u>	<u>13,477</u>	<u>399,586</u>
<b>NET ASSETS</b> , end of year	<u>\$ 234,339</u>	<u>\$1,453,454</u>	<u>\$ 13,477</u>	<u>\$1,701,270</u>

See Notes to Financial Statements.

Year ended June 30, 2013			
Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 3,382	\$ 6,150	\$ 500	\$ 10,032
61,288	145,062	—	206,350
17,130	18,365	—	35,495
<u>81,800</u>	<u>169,577</u>	<u>500</u>	<u>251,877</u>
 54,523	 (54,523)	 —	 —
<u>136,323</u>	<u>115,054</u>	<u>500</u>	<u>251,877</u>
 1,156	 —	 —	 1,156
44,102	—	—	44,102
6,757	—	—	6,757
33	—	—	33
89,347	—	—	89,347
1,338	—	—	1,338
—	—	—	—
—	—	—	—
<u>500</u>	<u>—</u>	<u>—</u>	<u>500</u>
<u>143,233</u>	<u>—</u>	<u>—</u>	<u>143,233</u>
 3,558	 —	 —	 3,558
<u>146,791</u>	<u>—</u>	<u>—</u>	<u>146,791</u>
 (10,468)	 115,054	 500	 105,086
<u>219,436</u>	<u>62,087</u>	<u>12,977</u>	<u>294,500</u>
<u>\$ 208,968</u>	<u>\$ 177,141</u>	<u>\$ 13,477</u>	<u>\$ 399,586</u>

See Notes to Financial Statements.

**Floyd Valley Hospital Foundation**  
**(A Component Unit of Floyd Valley Hospital)**  
**STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$1,301,684	\$ 105,086
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Increase) in contributions receivable	(1,351,344)	(211)
Increase (decrease) in accounts payable	<u>(42,780)</u>	<u>42,860</u>
Net cash provided by (used in) operating activities	<u>(92,440)</u>	<u>147,735</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase/redemption of the interest in the net assets of Avera Health Foundation	<u>92,440</u>	<u>(147,735)</u>
Net cash provided by (used in) investing activities	<u>92,440</u>	<u>(147,735)</u>
<b>NET CHANGE IN CASH</b>	<u>—</u>	<u>—</u>
<b>CASH</b>		
Beginning	<u>—</u>	<u>—</u>
Ending	<u>\$ —</u>	<u>\$ —</u>

See Notes to Financial Statements.

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Hospital is the municipal hospital of the City of Le Mars, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or property. The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

**Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2014 Floyd Valley Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Floyd Valley Hospital Foundation. The Foundation's financial statements are separately presented on pages 17-20.

The Hospital is includable as a component unit within the City of Le Mars, Iowa reporting entity due to fiscal dependence.

**Measurement Focus and Basis of Accounting**

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

**Accounting Standards**

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

Floyd Valley Hospital Foundation's financial statement presentation follows the recommendations of the Financial Statements of Not-for-Profit Organizations Topic of the *FASB Accounting Standards Codification*. Under Financial Statements of Not-for-Profit Organizations Topic of the *FASB Accounting Standards Codification*, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets.

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounting Standards (continued)**

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

**Investments and Investment Income**

The Hospital's investments are nonnegotiable certificates of deposit and are reported at cost.

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

Assets held by Avera Health Investment Pool by the Floyd Valley Hospital Foundation with readily determinable market values are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national and foreign securities exchanges.

The Foundation participates in the Avera Pooled Investment Fund, a fund administered by Avera Health. The Pooled Investment Fund has a portion of its holdings in alternative investments, which are not readily marketable. These alternative investments include partnerships and other interests that invest in hedge funds, real asset funds, and private equity/venture capital funds, among others. Certain alternative investments held within Avera Pooled Investment Fund include liquidity and redemption limitations. Alternative investments representing less than 3% ownership interest are carried at cost. Alternative investments representing greater than 3% ownership interest are recorded using the equity method. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants of the Avera Pooled Investment Fund. (See Note 20)

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Capital Assets**

Capital assets acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation is computed using these asset lives:

Land improvements	10 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	1 to 20 years
Medical records	5 years

**Interest**

Interest costs related to construction debt are capitalized and included with costs of the project.

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Position**

Net position is presented in the following three components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the notes payable that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted net position**

Restricted net position consists of funds restricted on which constraints have been externally imposed by creditors (such as through debt covenants) grantors, contributors, or laws or regulations of other governments.

**Unrestricted net position**

Unrestricted net position has no externally imposed restrictions on use.

When both restricted and unrestricted net position are available for use, generally it is the Hospital's policy to use restricted net position first.

**Statements of Revenue, Expenses, and Changes in Net Position**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Costs of Borrowing**

Costs of borrowing are expensed in the year incurred.

**Accounting Estimates and Assumptions**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Contributions Receivable**

Unconditional contributions receivable are recorded as receivables and revenue in the year received.

**Electronic Health Record Incentive Payments**

The Hospital has received payments from the Medicare and Medicaid programs under the Electronic Health Records (EHR) Incentive Program. To qualify for EHR incentive payments, the Hospital must meet designated EHR meaningful use criteria. These incentive payments are reported in other revenue in the financial statements.

**Fair Value Measurements of Foundation Interest in Avera Health Investment Pool**

The Foundation, based on information received from Avera Pooled Investment Fund, has determined the fair value of its interest in accordance with the provisions of The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification*, which provides a framework for measuring fair value under generally accepted accounting principles.

The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

**Income Taxes**

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) for an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated their material tax positions and determined there are no uncertain positions taken or expected to be taken that would require recognition or a liability (or asset) or disclosures in the financial statements. The Foundation is subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress. Management believes the Foundation is no longer subject to income tax examinations for years prior to 2010.

**Subsequent Events**

The Foundation has evaluated subsequent events through October 14, 2014, which was the date the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.



**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, certain common stocks, and warrants or improvement certificates of a drainage district.

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended during a current budget year or within fifteen months of receipt) to instruments that mature within 397 days. Fund not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and uses of the Hospital.

**NOTE 3 PATIENT RECEIVABLES**

Patient accounts receivable reported as current assets consisted of these amounts:

	<b>June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
Receivable from patients	\$2,795,210	\$2,870,902
Receivable from insurance carriers	2,530,768	2,632,604
Receivable from Medicare	1,874,295	2,142,337
Receivable from Medicaid	<u>372,098</u>	<u>373,597</u>
Total patient receivables	7,572,371	8,019,440
Less allowances for contractual and other adjustments	<u>(3,661,832)</u>	<u>(4,101,384)</u>
Totals	<u><b>\$3,910,539</b></u>	<u><b>\$3,918,056</b></u>

**NOTE 4 NOTES RECEIVABLE**

The Hospital has entered into agreements with several physicians, with amounts to be forgiven over specified periods.

Notes receivable at June 30, 2014, are expected to be received as follows:

Year ending June 30,	
2015	\$ 71,250
2016	48,334
2017	<u>38,750</u>
Total	<u><b>\$ 158,334</b></u>

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2014 and 2013 follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending June 30, 2014</u>
Land	\$ 185,160	\$ —	\$ —	\$ —	\$ 185,160
Land improvements	873,519	—	—	—	873,519
Buildings and fixed equipment	18,238,959	40,379	(101,622)	244,358	18,422,074
Major movable equipment	7,844,113	123,915	(293,516)	520,435	8,194,947
Intangible					
Medical records	252,633	—	—	—	252,633
Construction and equipment installations in progress	<u>1,228,929</u>	<u>5,543,305</u>	<u>(62,290)</u>	<u>(764,793)</u>	<u>5,945,151</u>
Totals	28,623,313	5,707,599	(457,428)	—	33,873,484
Less accumulated depreciation and amortization	<u>(17,076,146)</u>	<u>(1,498,046)</u>	<u>391,258</u>	—	<u>(18,182,934)</u>
Net capital assets	<u>\$11,547,167</u>	<u>\$4,209,553</u>	<u>\$ (66,170)</u>	<u>\$ —</u>	<u>\$15,690,550</u>

  

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending June 30, 2013</u>
Land	\$ 185,160	\$ —	\$ —	\$ —	\$ 185,160
Land improvements	873,519	—	—	—	873,519
Buildings and fixed equipment	18,234,568	19,394	(15,003)	—	18,238,959
Major movable equipment	7,202,707	505,796	(557,027)	692,637	7,844,113
Intangible					
Medical records	252,633	—	—	—	252,633
Construction and equipment installations in progress	<u>362,854</u>	<u>1,558,712</u>	<u>—</u>	<u>(692,637)</u>	<u>1,228,929</u>
Totals	27,111,441	2,083,902	(572,030)	—	28,623,313
Less accumulated depreciation and amortization	<u>(16,104,042)</u>	<u>(1,536,094)</u>	<u>563,990</u>	—	<u>(17,076,146)</u>
Net capital assets	<u>\$11,007,399</u>	<u>\$ 547,808</u>	<u>\$ (8,040)</u>	<u>\$ —</u>	<u>\$11,547,167</u>

Construction in progress at June 30, 2014 consists of costs incurred related to an addition to the current hospital and remodeling of hospital space. Total cost of the project is estimated at approximately \$27,000,000. The project is to be funded by current funds of the Hospital, funds from the Foundation's capital campaign and the acquisition of long-term debt (See Note 10). Equipment installations in progress consists of costs related to coding system software, a sterilizer and a generator.

**NOTE 6 LAND AND BUILDINGS LEASED TO OTHERS**

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$3,259. The leases expire at various times through August 2014 with various provisions for renewal options. The Hospital is responsible for all property taxes, utilities, and housekeeping.

Other revenue for the years ended June 30, 2014 and 2013 includes gross rental income of \$44,590 and \$51,163, respectively, for these leases.

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 LAND AND BUILDINGS LEASED TO OTHERS (continued)**

Future minimum rentals to be received under these leases are as follows:

**Year ending June 30**

2015	\$ <u>9,912</u>
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**NOTE 7 ASSETS RESTRICTED FOR PAYMENT OF REVENUE NOTES AND INTEREST**

Assets restricted for payment of revenue notes and interest were required to be funded by the note resolution. Following are the changes in these assets for the years ended June 30, 2014 and 2013.

	<u>Reserve Fund</u>	<u>Sinking Fund</u>
Balance, June 30, 2012	\$ 668,124	\$ 204,529
Transfers from current asset cash	—	502,244
Interest income	—	1,374
Payment of notes and interest	<u>—</u>	<u>(497,927)</u>
Balance, June 30, 2013	668,124	210,220
Transfers from current asset cash	—	213,717
Interest income	—	1,249
Payment of notes and interest	<u>(668,124)</u>	<u>(423,937)</u>
Balance, June 30, 2014	\$ <u>—</u>	\$ <u>1,249</u>

**NOTE 8 INVESTMENT IN NORTHWEST IOWA DIAGNOSTICS**

The Hospital has a 44% investment interest in Northwest Iowa Diagnostics, an entity engaged in providing ultrasound technology staffing services. The investment is accounted for using the equity method. The Hospital has recorded its share of the entity's income of \$29,987 and \$20,671 for the years ended June 30, 2014 and 2013, respectively.

Northwest Iowa Diagnostics is an entity formed under chapter 28E of the Iowa Code. The Hospital is a contributing member. The Hospital leases two Hospital employees to provide services for Northwest Iowa Diagnostics. During the years ended June 30, 2014 and 2013, the Hospital received \$191,210 and \$193,776, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$209,980 and \$194,230 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2014 and 2013, respectively. Separate financial statements of the entity can be obtained by contacting the Hospital's Director of Financial Services.

**NOTE 9 INVESTMENT IN FLOYD VALLEY HOME MEDICAL EQUIPMENT**

The Hospital has a 50% investment interest in Floyd Valley Home Medical Equipment, an entity engaged in the sale and implementation of medical equipment for home use. The investment is accounted for using the equity method. The Hospital has recorded its share of the entity's income of \$23,323 and \$39,081 for the years ended June 30, 2014 and 2013, respectively.

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 INVESTMENT IN FLOYD VALLEY HOME MEDICAL EQUIPMENT (continued)**

Floyd Valley Home Medical Equipment is an entity formed under chapter 28E of the Iowa Code. The Hospital is a contributing member. The Hospital leases two Hospital employees to provide services for Floyd Valley Home Medical Equipment as well as office space in the Hospital's facility. During the years ended June 30, 2014 and 2013, the Hospital received \$114,521 and \$111,584, respectively, in lease revenue from Floyd Valley Home Medical Equipment related to this agreement.

**NOTE 10 LONG-TERM DEBT**

<b>Outstanding June 30</b>	
<b>2014</b>	<b>2013</b>

**Hospital Revenue Notes, Series 2002A**

The City Council of Le Mars adopted a resolution authorizing the issuance of \$1,800,000 of Hospital Revenue Notes dated July 1, 2002, to finance the acquisition of an assisted living facility in Le Mars. The notes mature serially through November 1, 2017, with interest coupons payable on May 1 and November 1 at annual rates varying from 5.10% to 5.45%. Notes maturing in 2012 and thereafter may be called for redemption, in whole or in part in any order of maturity after November 1, 2011, or on any date thereafter at par and accrued interest at the coupon rate. The notes were paid during the year ended June 30, 2014.

\$           —           \$ 730,100

**Hospital Revenue Notes, Series 2002B**

The City Council of Le Mars adopted a resolution authorizing the issuance of \$3,845,000 of Hospital Revenue Notes dated December 1, 2002, to finance the construction of an addition to and remodeling of portions of the Hospital. The notes mature serially through November 1, 2022, with interest coupons payable on May 1 and November 1 at annual rates varying from 5.0% to 5.9%. Notes maturing in 2013 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2012, or on any date thereafter at par and accrued interest at the coupon rate. The notes were paid during the year ended June 30, 2014.

—           2,935,100

**Hospital Revenue Bonds, Series 2013A, 2013B and 2013C**

The City of Le Mars, Iowa entered into loan agreements for the purpose of providing funds to the Hospital to finance improvements to expand and remodel portions of the Hospital's existing facilities and to refund the Series 2002 notes as discussed above. The loan agreements will not constitute general obligations of the City, nor will they be payable in any manner by taxation, but will be payable solely and only from the net revenues of the Hospital. The loan agreements provide for the following:

- Series 2013A Hospital Revenue Bond in the total amount of \$15,750,000. The funds are to be used to pay a portion of the project costs. Advances are to be made periodically to the final advance date. Interest only payments at 2.1% are to be made from December 18, 2013 to the final advance date. All principal and interest is due December 18, 2015, and will be paid by the proceeds of a United States Department of Agriculture Direct Loan.

3,339,235           —

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 LONG-TERM DEBT (continued)**

	<b>Outstanding June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Hospital Revenue Bonds, Series 2013A, 2013B and 2013C (continued)</b>		
<ul style="list-style-type: none"> <li>Series 2013B Hospital Revenue Bond in the total amount of \$5,250,000. The funds are to be used to pay a portion of the project costs and to refund the Series 2002 notes. Advances are to be made periodically to the final advance date. Interest only payments at an initial rate of 2.95% commence December 18, 2013 to December 18, 2015. The interest rate will be adjusted periodically throughout the term of the agreement.</li> </ul>	3,594,382	—
<ul style="list-style-type: none"> <li>Series 2013C Hospital Revenue Bond in the total amount of \$4,600,000. The funds are to be used to pay a portion of the project costs. Advances are to be made periodically to the final advance date. Interest only payments are to be made quarterly at 3.5% commencing March 31, 2014.</li> </ul>	50,001	—
<b>Rural Economic Development Loan</b>		
The Hospital entered into a note payable obligation with North West Rural Electric Cooperative on November 6, 2008. This note calls for quarterly principal only payments of \$18,000 beginning fifteen months following the date of the first advance of funds. The interest rate is -0-%.		
Totals	36,000	108,000
Less current maturities	7,019,618	3,773,200
	(36,000)	(367,000)
Total long-term debt	<u>\$6,983,618</u>	<u>\$3,406,200</u>

As to the above Hospital Revenue Notes, the Hospital had pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Notes were issued to finance capital improvements of the Hospital. The net revenues were pledged through November, 2022. As of June 30, 2014 the remaining principal and interest on the Notes was \$-0-. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2014 and 2013:

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Change in net position	\$1,622,930	\$ 361,168
Provision for depreciation	1,498,046	1,536,094
Interest and amortization expense	636,104	218,790
Pledged net revenues	<u>\$3,757,080</u>	<u>\$2,116,052</u>
Principal and interest requirements	<u>\$ —</u>	<u>\$ 497,927</u>

The revenue note resolutions required, among other things, the maintenance of a "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and a "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of \$668,124 was to be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next November 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes were required. These notes are reported net of unamortized discount of \$-0- and \$74,800 as of June 30, 2014 and 2013, respectively.

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 LONG-TERM DEBT (continued)**

Scheduled principal and interest repayments on revenues notes are as follows:

	<u>Rural economic development loan</u>		<u>Revenue bonds payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June 30, 2015	\$ <u>36,000</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>36,000</u>

Maturities on the Series 2013A, 2013B and 2013C Hospital Revenue Bonds will be determined at the final advance date for each issue. The revenue Bond resolutions require, among other things, the maintenance of a sinking fund which will be maintained.

Long-term debt activity for the years ended June 30, 2014 and 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<b>2014</b>					
Hospital revenue notes – Series 2002	\$3,740,000	\$ —	\$3,740,000	\$ —	\$ —
Hospital revenue bonds – Series 2013	—	6,983,618	—	6,983,618	—
Rural economic development note	<u>108,000</u>	<u>—</u>	<u>72,000</u>	<u>36,000</u>	<u>36,000</u>
Totals	<u>\$3,848,000</u>	<u>\$6,983,618</u>	<u>\$3,812,000</u>	<u>\$7,019,618</u>	<u>\$ 36,000</u>
<b>2013</b>					
Hospital revenue notes – Series 2002	\$4,025,000	\$ —	\$ 285,000	\$3,740,000	\$ 295,000
Rural economic development note	<u>180,000</u>	<u>—</u>	<u>72,000</u>	<u>108,000</u>	<u>72,000</u>
Totals	<u>\$4,205,000</u>	<u>\$ —</u>	<u>\$ 357,000</u>	<u>\$3,848,000</u>	<u>\$ 367,000</u>

**NOTE 11 CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Charges foregone, based on established rates	\$ <u>359,093</u>	\$ <u>409,676</u>
Equivalent percentage of charity care patients to all patients served	<u>.7%</u>	<u>.8%</u>

**NOTE 12 PENSION AND RETIREMENT BENEFITS**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 PENSION AND RETIREMENT BENEFITS (continued)**

Plan members are required to contribute 5.95% of their annual salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,004,072, \$953,409 and \$853,675, respectively, which equals the required contribution and amount charged to IPERS expense each year.

**NOTE 13 EMPLOYEE BENEFITS**

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$50,000 per person and approximately \$3,082,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2014 and 2013 was \$2,665,045 and \$2,564,914, respectively, which includes program administration expenses.

**NOTE 14 OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 276 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 102% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, ARC, of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2014, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 5,400
Interest on net OPEB obligation	(1,100)
Adjustment to annual required contribution	<u>1,400</u>
Annual OPEB cost	5,700
Contributions made	<u>-</u>
Increase in net OPEB obligation	5,700
Net OPEB obligation, beginning of year	<u>(15,526)</u>
Net OPEB obligation, end of year	<u>\$ (9,826)</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

For the year ended June 30, 2014, the Hospital contributed \$-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2012	\$ <u>8,400</u>	<u>155%</u>	\$ <u>(21,243)</u>
June 30, 2013	\$ <u>5,717</u>	<u>0%</u>	\$ <u>(15,526)</u>
June 30, 2014	\$ <u>5,700</u>	<u>0%</u>	\$ <u>(9,826)</u>

As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$38,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$38,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,417,000, and the ratio of the UAAL to the covered payroll was .3%. As of June 30, 2014, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2013 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,167 per month for retirees. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

**NOTE 15 CONTINGENCIES**

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Incidents occurring through June 30, 2014 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.



**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 16 NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare and Medicaid**

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012.

**Other**

The Hospital has payment agreements with Wellmark, other commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**NOTE 17 HOSPITAL RISK MANAGEMENT**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 18 SPLIT INTEREST AGREEMENT**

The Hospital is a party of a split-interest agreement. The Hospital reports separately the fair value of the assets of the split-interest agreement in its balance sheet and a change in value of \$448,000 and \$143,000 for the years ended June 30, 2014 and 2013, respectively, from the split-interest agreement in its statements of revenues, expenses and changes in net position.

Charitable remainder unitrust are arrangements between a donor, who establishes the trust, and the Hospital as beneficiary. The donor contributed assets to the trust in exchange for a promise from the trust to pay the donor the lesser of a fixed percentage amount of 5% of net fair value of the assets of the trust or trust income, for the life of the donor. Assets received have been recognized at fair value. Unrestricted contribution revenue is recognized at the same value because trust income and expense are expected to be the same. To calculate the present value of the charitable remainder unitrust, the 2003 life expectancy tables (published by the National Center of Health Statistics) and a 6% discount rate were used.

**NOTE 19 FLOYD VALLEY HOSPITAL FOUNDATION**

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Floyd Valley Hospital Foundation is a component unit of the Hospital. The Floyd Valley Hospital Foundation was established to raise funds to support the operations and other activities of the Floyd Valley Hospital. And as such, the Foundation is considered to be a component unit of the Hospital based on the related benefits to the Hospital. The Foundation's audited statement of financial position as of June 30, 2014 and 2013, and audited statements of activities and cash flows for the year then ended, are included on pages 17-20.

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 20 ASSETS HELD AT THE AVERA HEALTH FOUNDATION**

The Floyd Valley Hospital Foundation (FVHF) has transferred assets to the Avera Health (AH) to be part of a common investment fund, Avera Health Pooled Investments (AHPI).

Amounts reported in the statement of financial position of FVHF as interest in the net assets of AHPI represents the net cumulative transfers by FVHF to AHPI as well as earnings net of disbursements. Distributions may be requested from time to time from the investment fund to meet the requirements FVHF has established for its charitable, educational or scientific purposes. Generally, FVHF can request payment for all or any part of its funds upon thirty day notice to AH.

The assets transferred to AHPI are invested in a pooled investment fund at the direction of AHPI Committee. The objective of the fund is optimum total return consistent with a high degree of liquidity and reasonable safety of principal. Avera Health Pooled Investments includes investments in securities that are measured at fair value using inputs under the guidance provided by The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification*. Avera Health Pooled Investments also includes investments that are recorded at historic cost, subject to an annual impairment test, or under the equity method as described in the investment policy.

The fair value measurement literature established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets and Level 3 inputs have the lowest priority. The AH uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the AH measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

As of June 30, 2014 and 2013, the valuation of investment within Avera Health Pooled Investments was as follows:

	<u><b>2014</b></u>	<u><b>2013</b></u>
Fair value - Level 1 inputs	22.6%	27.9%
Fair value - Level 2 inputs	62.6%	57.8%
Fair value - Level 3 inputs	14.8%	14.3%
Cost basis or equity method	<u>0.0%</u>	<u>0.0%</u>
	<u>100.0%</u>	<u>100.0%</u>

The investment allocation at June 30, 2014 and 2013 are as follows:

	<u><b>2014</b></u>	<u><b>2013</b></u>
Non-publicly traded stocks, trusts, and partnerships (alternative investments)	14.7%	14.3%
US Treasury and Agency obligations	3.4%	4.4%
Foreign stocks and other	6.2%	5.7%
Publicly traded equity securities	8.1%	10.7%
Cash and short-term investments	3.1%	5.6%
Corporate bonds	8.4%	8.5%
Publicly traded mutual funds	<u>56.1%</u>	<u>50.8%</u>
	<u>100.0%</u>	<u>100.0%</u>

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 20 ASSETS HELD AT THE AVERA HEALTH FOUNDATION (continued)**

Investment income, realized and unrealized gains and losses, of the investment pool are allocated to the FVHF based on the pooled assets value. Allocation of investment income is as follows for the year ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest, dividends and net realized gains and losses	\$ 21,036	\$ 13,623
Net unrealized gains	<u>17,373</u>	<u>21,872</u>
Investment income, net	<u>\$ 38,409</u>	<u>\$ 35,495</u>

**NOTE 21 FLOYD VALLEY HOSPITAL FOUNDATION NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Medical records equipment	\$ 1,390	\$ 1,390
Capital campaign	1,359,284	91,917
Pediatric equipment	63,282	58,284
Employee assistance	22,296	18,911
EMS training scholarship	2,274	2,274
Endowment	2,167	1,481
Park Place Estates	<u>2,761</u>	<u>2,884</u>
	<u>\$1,453,454</u>	<u>\$ 177,141</u>

Permanently restricted net assets are available to provide support for the EMS training scholarship and total \$13,477 at June 30, 2014 and 2013.

**NOTE 22 ENDOWMENT**

The Foundation's endowment funds consist of Board designated assets, temporarily restricted net assets which are available for a variety of purposes and permanently restricted net assets which provide that the principal be invested in perpetuity and the income only be used. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has adopted the practice of preserving the fair value of the original gift as of the gift date of the permanently restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Use of the investment income from the assets may be unrestricted and used as the Foundation deems necessary for the purposes for which the original restricted gift was received. Currently, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 22 ENDOWMENT (continued)**

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2014 and 2013 the Foundation did not have a deficiency in donor-restricted funds.

<b>Year ended June 30, 2014</b>				
<b>Endowment Funds</b>				
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 61,693	\$ 177,141	\$ 13,477	\$ 252,311
Investment return				
Investment income	8,269	10,724	—	18,993
Contributions and special events	250	2,133,709	—	2,133,959
Appropriation of endowment assets for expenditure	(524)	(868,120)	—	(868,644)
Endowment assets, end of year	<u>\$ 69,688</u>	<u>\$ 1,453,454</u>	<u>\$ 13,477</u>	<u>\$ 1,536,619</u>

  

<b>Year ended June 30, 2013</b>				
<b>Endowment Funds</b>				
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 57,377	\$ 62,087	\$ 12,977	\$ 132,441
Investment return				
Investment income	4,833	18,365	—	23,198
Contributions and special events	100	151,212	500	151,813
Appropriation of endowment assets for expenditure	(617)	(54,523)	—	(55,141)
Endowment assets, end of year	<u>\$ 61,693</u>	<u>\$ 177,141</u>	<u>\$ 13,477</u>	<u>\$ 252,311</u>

**NOTE 23 CONTRIBUTIONS RECEIVABLE**

As of June 30, 2014, the Foundation's contributions receivable consists of promises to give to assist in funding the Hospital's expansion and renovation project. The Foundation has not recorded an allowance for uncollectible receivables as of June 30, 2014 as it is estimated that all amounts will be collected.

A summary of activity for the year ended June 30, 2014 is as follows:

Contributions receivable, beginning of year	\$ 1,674
Contributions made during the year	2,092,012
Payments received	(325,455)
Discount on receivables at 8%	(415,213)
Contributions receivable, end of year	<u>\$1,353,018</u>

The pledges are expected to be received in the following periods:

In one year or less	\$ 590,523
Between one and five years	668,664
More than five years	509,044
Less discount	(415,213)
Total	<u>\$1,353,018</u>

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 24 ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS**

The Hospital has met the EHR meaningful use criteria and has received payments from the Medicare and Medicaid programs. Payments received and included in other revenue total \$331,852 and \$507,099 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 25 PROSPECTIVE ACCOUNTING CHANGE**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Floyd Valley Hospital  
Budgetary Comparison Schedule  
Year ended June 30, 2014**

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. The Hospital annually adopts a budget and presents it to the City Council for inclusion in the City's annual budget, which is adopted following required public notice and hearings for all funds. The City's annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The major differences between budget and GAAP basis is that interest expense, property and equipment additions, and debt service principal amounts are included in operating expenditures on the budget basis.

The following is a comparison of reported expenses to budget:

	<b><u>Operating expenses (GAAP basis)</u></b>	<b><u>Budget basis adjustment</u></b>	<b><u>Budget basis</u></b>	<b><u>Budgeted Amounts</u></b>		<b><u>Final to actual budget variance</u></b>
				<b><u>Original</u></b>	<b><u>Amended</u></b>	
Year ended June 30, 2014 totals	<u>\$33,280,245</u>	<u>\$8,143,447</u>	<u>\$41,423,692</u>	<u>\$42,500,000</u>	<u>\$ —</u>	<u>\$1,076,308</u>

**Floyd Valley Hospital**  
**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN**  
(In Thousands)

**Required Supplementary Information**

<b>Fiscal year ended</b>	<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b - a)/c)</b>
2012	June 30, 2010	\$ <u>—</u>	\$ <u>59</u>	\$ <u>59</u>	<u>0.0%</u>	\$ <u>10,747</u>	<u>.5%</u>
2013	June 30, 2012	\$ <u>—</u>	\$ <u>38</u>	\$ <u>38</u>	<u>0.0%</u>	\$ <u>10,004</u>	<u>.4%</u>
2014	June 30, 2012	\$ <u>—</u>	\$ <u>38</u>	\$ <u>38</u>	<u>0.0%</u>	\$ <u>11,417</u>	<u>.3%</u>

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.





## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees  
Floyd Valley Hospital  
Le Mars, Iowa

We have audited the financial statements of Floyd Valley Hospital as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon, which appears on pages 4 and 5, dated October 14, 2014, which contains an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The following supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
October 14, 2014

**Floyd Valley Hospital**  
**AGE ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
0 - 60 days	\$4,356,753	\$4,459,885	57.54%	55.61%
61 - 90 days	475,691	732,495	6.28	9.13
91 - 180 days	981,455	1,035,129	12.96	12.91
Over 6 months	<u>1,758,472</u>	<u>1,791,931</u>	<u>23.22</u>	<u>22.35</u>
Totals	<u>7,572,371</u>	<u>8,019,440</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	1,526,391	1,519,708		
Contractual allowances	<u>2,135,441</u>	<u>2,581,676</u>		
Total allowances	<u>3,661,832</u>	<u>4,101,384</u>		
Totals	<u>\$3,910,539</u>	<u>\$3,918,056</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>BALANCE</b> , beginning	\$1,519,708	\$1,381,010
<b>ADD</b>		
Provision for bad debts	1,061,187	864,211
Recoveries of accounts previously written off	142,040	136,265
<b>LESS</b>		
Accounts written off	<u>(1,196,544)</u>	<u>(861,778)</u>
<b>BALANCE</b> , ending	<u>\$1,526,391</u>	<u>\$1,519,708</u>

**Floyd Valley Hospital  
INVENTORIES**

	<b>June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
General stores	\$ 166,412	\$ 143,440
Pharmacy	198,355	178,081
Operating room	74,593	59,321
Intravenous solutions	<u>3,942</u>	<u>3,874</u>
Totals	<u>\$ 443,302</u>	<u>\$ 384,716</u>

**Floyd Valley Hospital  
INSURANCE COVERAGE**

Avera (policy expiration December 31, 2014)

Professional liability	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Employee benefits liability	\$1,000,000/3,000,000
	\$1,000 deductible

Umbrella/shared limit	\$35,000,000
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Automobiles

Liability	\$1,000,000
Collision	\$500 deductible
Uninsured/under insured motorist	\$1,000,000
Medical payments	\$5,000

Directors' and officers' liability	\$5,000,000/\$15,000,000
	\$50,000 deductible

Employee dishonesty liability	\$1,000,000
	\$25,000 deductible

Employed physician's liability	\$1,000,000/3,000,000
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Commercial property

Real property	\$45,344,129
Personal property	\$9,120,080
Earnings and extra expense	\$23,287,225
	\$10,000 deductible

Farm Bureau (policy expiration November 1, 2014)

Workers' compensation	Statutory
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The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Floyd Valley Hospital  
PATIENT SERVICE REVENUE**

	<b>Total</b>	
	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>DAILY PATIENT SERVICES</b>		
Medical, surgical and obstetric	\$ 2,998,703	\$ 2,775,905
Long term care	537,259	508,325
Nursery	116,550	131,575
	<u>3,652,512</u>	<u>3,415,805</u>
<b>OTHER NURSING SERVICES</b>		
Operating and recovery rooms	6,033,474	5,998,754
Delivery and labor room	236,410	308,671
Central service and supply	1,839,284	2,080,632
Emergency service	6,466,777	6,230,301
Home health services	<u>1,188,041</u>	<u>1,031,406</u>
	<u>15,763,986</u>	<u>15,649,764</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Laboratory	7,781,017	7,794,274
Electrocardiology	1,011,239	1,043,821
Radiology	7,637,856	7,211,695
Pharmacy	2,520,466	2,745,199
Anesthesiology	1,628,817	1,746,761
Respiratory therapy	730,914	751,559
Physical therapy	1,831,485	1,628,637
Occupational therapy	277,565	245,885
Speech therapy	481,461	383,504
Enterostomy	435,855	334,973
Audiology	1,320	1,920
Clinics	5,611,664	5,489,761
Cardiac rehabilitation	<u>99,792</u>	<u>104,320</u>
	<u>30,049,451</u>	<u>29,482,309</u>
	49,465,949	48,547,878
Charity care charges foregone, based on established rates	<u>(359,093)</u>	<u>(409,676)</u>
Total gross patient service revenue	49,106,856	48,138,202
Provisions for contractual and other adjustments	<u>(18,375,484)</u>	<u>(17,901,853)</u>
Net patient service revenue	<u>\$30,731,372</u>	<u>\$30,236,349</u>

Inpatient		Outpatient		Swing bed	
Year ended June 30		Year ended June 30		Year ended June 30	
2014	2013	2014	2013	2014	2013
\$2,998,703	\$2,775,905	\$ —	\$ —	\$ —	\$ —
—	—	—	—	537,259	508,325
116,550	131,575	—	—	—	—
<u>3,115,253</u>	<u>2,907,480</u>	<u>—</u>	<u>—</u>	<u>537,259</u>	<u>508,325</u>
1,600,526	1,509,374	4,430,332	4,486,341	2,616	3,039
179,976	247,097	56,434	61,574	—	—
842,171	1,019,342	929,412	986,319	67,701	74,971
118,846	99,027	6,340,329	6,120,332	7,602	10,942
—	—	1,188,041	1,031,406	—	—
<u>2,741,519</u>	<u>2,874,840</u>	<u>12,944,548</u>	<u>12,685,972</u>	<u>77,919</u>	<u>88,952</u>
621,502	573,363	7,077,706	7,153,475	81,809	67,436
63,618	60,506	942,349	975,891	5,272	7,424
328,214	244,946	7,286,363	6,940,401	23,279	26,348
774,724	742,753	1,558,999	1,779,434	186,743	223,012
477,404	530,801	1,149,733	1,214,894	1,680	1,066
288,645	300,936	336,118	328,902	106,151	121,721
89,323	82,219	1,635,685	1,442,198	106,477	104,220
25,509	24,801	216,947	182,284	35,109	38,800
26,322	8,480	416,804	335,842	38,335	39,182
26,415	15,729	387,505	301,138	21,935	18,106
1,095	1,485	225	435	—	—
—	—	5,611,664	5,489,761	—	—
—	—	99,792	104,320	—	—
<u>2,722,771</u>	<u>2,586,019</u>	<u>26,719,890</u>	<u>26,248,975</u>	<u>606,790</u>	<u>647,315</u>
<u>\$8,579,543</u>	<u>\$8,368,339</u>	<u>\$39,664,438</u>	<u>\$38,934,947</u>	<u>\$1,221,968</u>	<u>\$1,244,592</u>

**Floyd Valley Hospital**  
**PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Contractual adjustments	\$17,122,542	\$16,861,613
Employee and other allowances	191,755	176,029
Provision for bad debts	<u>1,061,187</u>	<u>864,211</u>
Totals	<u>\$18,375,484</u>	<u>\$17,901,853</u>

**OTHER REVENUE**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Cafeteria	\$ 103,788	\$ 110,294
Rental income	95,080	96,948
Park Place Estates	1,259,048	1,233,301
Lifeline	65,081	65,324
Electronic health records meaningful use incentive revenue	331,852	507,099
Pharmacy 340b program	566,076	—
Other	<u>848,951</u>	<u>1,007,992</u>
Totals	<u>\$3,269,876</u>	<u>\$3,020,958</u>

**Floyd Valley Hospital  
NURSING SERVICE EXPENSES**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>NURSING ADMINISTRATION</b>		
Salaries	\$ 173,939	\$ 172,892
Supplies and expenses	<u>1,993</u>	<u>2,423</u>
	<u>175,932</u>	<u>175,315</u>
<b>MEDICAL, SURGICAL AND OBSTETRIC</b>		
Salaries	1,776,484	1,674,316
Supplies and expenses	<u>89,189</u>	<u>117,107</u>
	<u>1,865,673</u>	<u>1,791,423</u>
<b>NURSERY</b>		
Salaries	30,833	50,770
Supplies and expenses	<u>2,685</u>	<u>3,342</u>
	<u>33,518</u>	<u>54,112</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries	481,383	450,410
Professional fees	1,391,993	1,528,267
Supplies and expenses	<u>173,283</u>	<u>192,077</u>
	<u>2,046,659</u>	<u>2,170,754</u>
<b>DELIVERY AND LABOR ROOM</b>		
Salaries	35,467	60,344
Supplies and expenses	<u>3,990</u>	<u>10,429</u>
	<u>39,457</u>	<u>70,773</u>
<b>CENTRAL SERVICE AND SUPPLY</b>		
Salaries	129,814	127,108
Purchased services	32,491	44,580
Supplies and expenses	<u>867,735</u>	<u>1,085,927</u>
	<u>1,030,040</u>	<u>1,257,615</u>
<b>EMERGENCY SERVICE</b>		
Salaries	897,562	946,126
Professional fees	1,171,841	1,100,202
Supplies and expenses	<u>76,500</u>	<u>78,515</u>
	<u>2,145,903</u>	<u>2,124,843</u>
<b>HOME HEALTH</b>		
Salaries	748,722	727,721
Purchased services	63,110	49,824
Supplies and expenses	<u>91,440</u>	<u>113,327</u>
	<u>903,272</u>	<u>890,872</u>
Totals	<u>\$8,240,454</u>	<u>\$8,535,707</u>



**Floyd Valley Hospital**  
**OTHER PROFESSIONAL SERVICE EXPENSES**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>LABORATORY</b>		
Salaries	\$ 704,903	\$ 705,115
Professional fees	9,659	7,022
Purchased services	306,730	347,901
Supplies and expenses	429,669	518,524
Blood	46,071	56,851
	<u>1,497,032</u>	<u>1,635,413</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries	10,625	11,745
Purchased services	89,925	115,787
Supplies and expenses	564	3,084
	<u>101,114</u>	<u>130,616</u>
<b>RADIOLOGY</b>		
Salaries	709,472	700,408
Professional fees	828,054	804,653
Purchased services	665,779	518,383
Supplies and expenses	302,054	302,411
	<u>2,505,359</u>	<u>2,325,855</u>
<b>PHARMACY</b>		
Salaries	284,689	282,895
Purchased services	252,081	163,390
Drugs	789,823	703,128
Intravenous solutions and supplies	15,858	13,279
Supplies and expenses	19,800	33,320
	<u>1,362,251</u>	<u>1,196,012</u>
<b>ANESTHESIOLOGY</b>		
Purchased services	665,508	657,000
Supplies and expenses	19,256	21,459
	<u>684,764</u>	<u>678,459</u>
<b>RESPIRATORY THERAPY</b>		
Salaries	183,583	174,405
Supplies and expenses	2,083	2,590
	<u>185,666</u>	<u>176,995</u>
<b>PHYSICAL THERAPY</b>		
Salaries	128,581	130,812
Purchased services	904,406	800,677
Supplies and expenses	26,373	23,983
	<u>1,059,360</u>	<u>955,472</u>
<b>OCCUPATIONAL THERAPY</b>		
Purchased services	152,639	135,237
Supplies and expenses	62	143
	<u>152,701</u>	<u>135,380</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries	25,975	3,765
Supplies and expense	1,373	2,766
	<u>27,348</u>	<u>6,531</u>

**Floyd Valley Hospital**  
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>FLOYD VALLEY HOME MEDICAL EQUIPMENT</b>		
Salaries	\$ 72,572	69,441
Supplies and expenses	<u>2,706</u>	<u>3,200</u>
	<u>75,278</u>	<u>72,641</u>
<b>SPEECH THERAPY</b>		
Salaries	21,768	—
Purchased services	272,374	230,102
Supplies and expenses	<u>5,312</u>	<u>1,271</u>
	<u>299,454</u>	<u>231,373</u>
<b>ENTEROSTOMY</b>		
Salaries	178,498	177,648
Supplies and expenses	<u>4,755</u>	<u>5,018</u>
	<u>183,253</u>	<u>182,666</u>
<b>AUDIOLOGY</b>		
Salaries	737	760
Purchased services	<u>1,350</u>	<u>935</u>
	<u>2,087</u>	<u>1,695</u>
<b>CLINICS</b>		
Salaries	2,088,316	2,026,576
Professional fees	1,800,095	2,044,860
Purchased services	62,018	73,707
Supplies and expenses	<u>584,424</u>	<u>551,621</u>
	<u>4,534,853</u>	<u>4,696,764</u>
<b>CARDIAC REHABILITATION</b>		
Salaries	52,572	70,614
Supplies and expenses	<u>4,799</u>	<u>4,324</u>
	<u>57,371</u>	<u>74,938</u>
<b>LIFELINE</b>		
Salaries	8,849	9,056
Purchased services	32,139	34,609
Supplies and expenses	<u>12,553</u>	<u>5,555</u>
	<u>53,541</u>	<u>49,220</u>
<b>UTILIZATION AND QUALITY ASSURANCE</b>		
Salaries	91,313	84,391
Supplies and expenses	<u>698</u>	<u>1,176</u>
	<u>92,011</u>	<u>85,567</u>
<b>MEDICAL RECORDS</b>		
Salaries	73,890	73,040
Purchased services	143,145	137,077
Supplies and expenses	<u>28,806</u>	<u>37,397</u>
	<u>245,841</u>	<u>247,514</u>
<b>SOCIAL SERVICES</b>		
Salaries	48,240	45,689
Supplies and expenses	<u>1,692</u>	<u>758</u>
	<u>49,932</u>	<u>46,447</u>
Totals	<u>\$13,169,216</u>	<u>\$12,929,558</u>

**Floyd Valley Hospital**  
**GENERAL SERVICE EXPENSES**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>DIETARY</b>		
Salaries	\$ 424,445	\$ 421,069
Food	291,088	305,820
Purchased services	40,988	42,092
Supplies and expenses	60,350	59,583
	<u>816,871</u>	<u>828,564</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries	234,327	243,221
Utilities	282,213	261,116
Purchased services	20,228	25,648
Supplies and expenses	97,781	80,183
	<u>634,549</u>	<u>610,168</u>
<b>HOUSEKEEPING</b>		
Salaries	195,005	194,769
Purchased services	3,422	3,045
Supplies and expenses	34,495	33,403
	<u>232,922</u>	<u>231,217</u>
<b>LAUNDRY AND LINEN</b>		
Purchased services	59,787	59,645
Supplies and expenses	2,287	1,185
	<u>62,074</u>	<u>60,830</u>
Totals	<u>\$1,746,416</u>	<u>\$1,730,779</u>

**Floyd Valley Hospital  
FISCAL AND ADMINISTRATIVE SERVICE  
AND UNASSIGNED EXPENSES**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>		
Administration		
Salaries	\$ 142,281	\$ 146,167
Management fee	447,142	442,689
Telephone	51,707	47,451
Postage	46,991	48,596
Supplies and expenses	134,565	141,234
Freight	35,392	32,266
Organization dues	1,215	640
Public relations	9,870	16,830
Marketing	137,613	136,810
	<u>1,006,776</u>	<u>1,012,683</u>
Business office		
Salaries	548,498	567,464
Supplies and expenses	215,072	186,272
	<u>763,570</u>	<u>753,736</u>
Data processing		
Salaries	116,320	114,584
Supplies and expenses	807,404	712,571
	<u>923,724</u>	<u>827,155</u>
Human resources		
Salaries	118,796	116,889
Supplies and expenses	70,314	58,099
	<u>189,110</u>	<u>174,988</u>
Risk management		
Salaries	52,366	40,807
Supplies and expenses	144,829	134,418
	<u>197,195</u>	<u>175,225</u>
Education		
Salaries	152,439	145,655
Purchased services	13,313	13,860
Supplies and expenses	25,626	28,676
	<u>191,378</u>	<u>188,191</u>
Foundation		
Salaries	45,399	61,563
Supplies and expenses	58,492	18,844
	<u>103,891</u>	<u>80,407</u>
Park Place Estates		
Salaries	427,051	412,351
Purchased services	23,481	19,750
Supplies and expenses	94,646	91,787
	<u>545,178</u>	<u>523,888</u>
<b>UNASSIGNED EXPENSES</b>		
Employee benefits		
Payroll taxes	1,815,265	1,749,573
Group health insurance	2,665,045	2,564,914
Life and disability insurance	119,056	127,001
Insurance	105,925	110,859
	<u>4,705,291</u>	<u>4,552,347</u>
Totals	<u>\$8,626,113</u>	<u>\$8,288,620</u>

**Floyd Valley Hospital  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>PATIENT DAYS</b>		
Acute	1,992	2,067
Special care	5	—
Nursery	222	277
Swing bed		
Skilled nursing care	930	935
Intermediate care	<u>9</u>	<u>12</u>
Totals	<u>3,158</u>	<u>3,291</u>
 <b>ADMISSIONS</b>	641	672
<b>DISCHARGES</b>	641	666
<b>AVERAGE LENGTH OF STAY</b> , acute and special care	3.11	3.10
 <b>BEDS</b>	25	25
<b>OCCUPANCY PERCENT, ACUTE</b>	21.89%	22.65%
 <b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	\$84,196	\$82,839
 <b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR</b>	46.45	47.30

**Floyd Valley Hospital**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number/Contract #</u>	<u>Federal Expenditures</u>
<b><u>Direct Federal Awards</u></b>			
<b>United States Department of Agriculture</b>			
Community Facilities Loans and Grants	10.766	N/A	<u>\$3,378,609</u>

**NOTE A BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Hospital under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hospital.

See Independent Auditor's Report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Floyd Valley Hospital and Floyd Valley Hospital Foundation  
LeMars, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Floyd Valley Hospital and its component unit, Floyd Valley Hospital Foundation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Floyd Valley Hospital's and its component unit's basic financial statements, and have issued our report thereon dated October 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's and Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's and Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's and Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's and Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's and Foundation's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and Foundation. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's and Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's and Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
October 14, 2014





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY OMB CIRCULAR A-133**

Board of Trustees  
Floyd Valley Hospital  
Le Mars, Iowa.

**Report on Compliance for Each Major Federal Program**

We have audited Floyd Valley Hospital's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Floyd Valley Hospital's major federal program for the year ended June 30, 2014. Floyd Valley Hospital's major federal program is identified in the summary of the independent auditor's results section of the accompanying schedule of findings.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for Floyd Valley Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Floyd Valley Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on Floyd Valley Hospital's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Floyd Valley Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of Floyd Valley Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Floyd Valley Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Floyd Valley Hospital's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
October 14, 2014

**Floyd Valley Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2014**

**Part I—Findings Related to the Financial Statements**

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Part II—Findings Related to Required Statutory Reporting**

**14-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**14-II-B TRAVEL EXPENSES**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**14-II-C BUSINESS TRANSACTIONS**

No business transactions were found between the Hospital and Hospital officials and/or employees.

**14-II-D BOARD MINUTES**

No transactions were found that we believe should have been approved in the Board minutes but were not.

**14-II-E DEPOSITS AND INVESTMENTS**

We noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B & 12C of the Code of Iowa and the Hospital's investment policy.

**Floyd Valley Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2014**

**SECTION III - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

**Financial Statements**

- (a) The auditor's report expresses an unmodified opinion on the financial statements of Floyd Valley Hospital.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) No instances of noncompliance material to the financial statements of Floyd Valley Hospital, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

**Federal Awards**

- (d) No material weaknesses in internal controls over the major federal award programs were disclosed.
- (e) The auditor's report on compliance for the major programs expresses an unmodified opinion.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
- (g) The major program is as follows:  
CFDA Number 10.766 – Community Facilities Loans and Grants
- (h) The dollar threshold used for distinguishing between Types A and B programs was \$300,000.
- (i) Floyd Valley Hospital does not qualify as a low-risk auditee.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None.

**SECTION III - FINDINGS FOR FEDERAL AWARDS**

None.